

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT ON EXAMINATION

as of

DECEMBER 31, 2000

of

**ATTORNEYS INSURANCE MUTUAL
of ALABAMA, Inc.**

BIRMINGHAM, ALABAMA

PARTICIPATION:

Alabama

EXAMINATION AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF COFFEE**

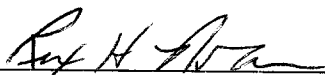
Rex H. Newborn being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

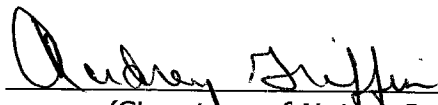
That an examination was made of the affairs and financial condition of Attorneys Insurance Mutual of Alabama, Inc. for the period of January 1, 1996 through December 31, 2000;

That the following 19 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.


Rex H. Newborn
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 16th day of April, 2002.


(Signature of Notary Public)

Audrey Griffin, Notary Public
Printed name

in and for the State of Alabama

My commission expires 11/2/05

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Birmingham, Alabama
April 16, 2002

Honorable David Parsons
Commissioner of Insurance
State of Alabama
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Parsons:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

Attorneys Insurance Mutual of Alabama, Inc.
Birmingham, Alabama

as of December 31, 2000, at its home office located at 200 Inverness Parkway, Birmingham, Alabama 35242. The report of examination is submitted herewith.

Where the term, Company, appears herein without qualification, it is synonymous with Attorneys Insurance Mutual of Alabama, Inc.

SCOPE OF EXAMINATION

The examination reported herein covers the period from December 31, 1995 through December 31, 2000, and has been conducted by examiners representing the Alabama Department of Insurance. Events subsequent to December 31, 2000, have been reviewed as required and are reported herein as deemed appropriate.

The Company has been examined in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance; in accordance with the applicable guidelines and procedures of the NAIC; and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices and compliance with statutes and regulations. Income and disbursement items were tested for selected periods. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2000, as shown in the financial statements contained herein.

In compliance with requirements of the Alabama Department of Insurance, the President and Treasurer of the Company executed a letter of representation certifying that the Company had valid title to all its reported assets, and that it did not have unreported liabilities as of December 31, 2000.

Within this report, discussion of the Company's accounts has been confined to those items for which a material change in the financial statements has been noted or for which comments and/or recommendations have been made.

ORGANIZATION AND HISTORY

The Company was incorporated May 19, 1988, as a mutual insurance corporation, and commenced business on July 1, 1989.

The Company was formed as a result of a feasibility study, by the Insurance Programs Committee of the Alabama State Bar, begun in 1986. An organizational effort by members of the State Bar followed, and the Company was formed for the purpose of writing professional liability insurance coverage for attorneys who are residents of, and practice law in, the State of Alabama.

The Company's initial capital was obtained by issuing surplus debentures to its policyholders. Investment in the surplus debentures was required of all policyholders until May 15, 2000, at which time the requirement was suspended because the Company was deemed to have sufficient capital.

As of December 31, 2000, the Company's only line of business continued to be attorneys' professional liability. It had approximately 1600 policyholders who were residents of Alabama and practicing law within the State. The Company's total policyholders' surplus was \$6,345,111, of which \$2,999,999 was funded by surplus debentures.

GROWTH OF THE COMPANY

The following schedule presents financial data, which reflect the growth of the Company for the years indicated:

<i><u>Year</u></i>	<i><u>Gross Premiums Written</u></i>	<i><u>Admitted Assets</u></i>	<i><u>Liabilities</u></i>	<i><u>Policyholders' Surplus</u></i>
1995	\$ 2,648,242	\$ 9,061,327	\$ 5,345,891	\$ 3,715,436
1996	2,861,859	9,921,460	5,767,290	4,154,170
1997	2,948,840	10,841,942	5,839,389	5,002,553
1998	2,862,294	12,138,760	6,607,788	5,530,972
1999	2,948,514	13,085,906	6,996,058	6,089,848
2000	2,982,278	13,415,487	7,070,376	6,345,111

Data for the years 1995 and 2000 are per examination. Data for the remaining years, were obtained from the Company's Annual Statements.

TERRITORY

At December 31, 2000, the Company was licensed in the State of Alabama only. The certificate of authority was inspected and found to be current and to provide for the Company to write the business of miscellaneous casualty, excluding surety bond.

STATUTORY DEPOSITS

In compliance with statutory requirements for transacting insurance business in the State of Alabama, the Company had the following security on deposit with the Alabama Department of Insurance, at December 31, 2000:

	<i><u>Par Value</u></i>	<i><u>Statement Value</u></i>	<i><u>Market Value</u></i>
Regions Bank, certificate of deposit, 5.734%, Due 8/9/02	\$100,000	\$100,000	\$100,000

All statutory deposits were confirmed as of December 31, 2000, by written correspondence with the respective custodians.

HOLDING COMPANY AND AFFILIATES

Holding Company Registration and Reporting

The Company is organized under the mutual plan and is not affiliated with any other organization. It is therefore deemed not to be subject to the Alabama Insurance Holding Company Regulatory Act of 1973, as defined in Section 27-29-1, *Code of Alabama*, 1975.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws and amendments thereto were inspected and found to provide for operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the stockholders, board of directors and committees of the Company, from December 31, 1995 through the most recent meetings recorded, were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies, except as noted in the "Management and Control," subsection, "Committees."

MANAGEMENT AND CONTROL

Policyholders

The Company operates under the mutual plan and is under the ultimate control of its policyholders. The Company's policyholders are all attorneys and members of the Alabama State Bar, as is required for policy issue. They numbered approximately 1,600 as of December 31, 2000.

Board of Directors

The Company's Bylaws stipulate that its business shall be managed and controlled by a Board of Directors (Board) who shall be elected by the policyholders. The number of directors shall be no less than eleven and no more than fifteen. At least two-thirds of the directors must be bona fide residents of Alabama. The terms of the directors are staggered so that approximately one-third expire each year.

The following directors were elected by the policyholders and were serving at December 31, 2000:

(continued next page)

Director/Residence

Henry Thomas Henzel
Birmingham, Alabama

Thomas Edwin Drake
Cullman, Alabama

Reginald Turner Hamner
Montgomery, Alabama

Ben Harte Harris, Jr.
Mobile, Alabama

Lucien Tennent Lee, III
Huntsville, Alabama

Charles Howard Moses, III
Birmingham, Alabama

Jere Coe Segrest
Dothan, Alabama

Harold Layman Speake
Moulton, Alabama

Phillip Edward Stano
Washington, D.C.

Norborne Clarke Stone, Jr
Bay Minette, Alabama

Claire Black Wilson
Tuscaloosa, Alabama

Paul Richard Hartley
Greenville, Alabama

Cathy Suzanne Wright
Birmingham, Alabama

Principal Occupation

President of the Company/
Attorney

Attorney

Attorney

Chairman of the Board, Company/
Attorney

Attorney

Secretary/Treasurer, Company/
Attorney

Attorney

Attorney

Attorney

Attorney

Attorney

Attorney

Vice President, Company/
Attorney

Committees

At December 31, 2000, the Company had the following committees operating under the authority of its Board of Directors.

Executive
Underwriting
Nominating
Personnel

Investment/Audit
Claims
Legislation
Marketing

It was noted that the Company did not have records of the actions of its claims committee. The Company's explanation for the lack of records was that the claims committee met by teleconference, and actions taken as a result of the meetings were entered directly into the claims files. However, virtually all of the Company's committee meetings were by teleconference. It was also noted that review of the claims files did not reveal any records of actions of the claims committee that could be identified as such.

Section 10-2B-16.01(a), *Code of Alabama*, 1975 requires that a corporation shall keep "... a record of all actions taken by a committee of the Board of Directors in place of the Board of Directors on behalf of the corporation."

Officers

The Company's Bylaws provide that its executive officers shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, and a Treasurer, each of whom shall be elected by the Board annually and shall hold office until their successors are elected and qualified. Other officers may be appointed by the Board, as deemed necessary.

Officers elected at the annual meeting of the Board of Directors in July 2000, and serving at December 31, 2000 were as follows:

Chairman of Board
Vice Chairman/President
Vice President
Vice President
Secretary/Treasurer

Ben Harte Harris, Jr.
Henry Thomas Henzel
Cathy Suzanne Wright
Wilma Sue Fields
Charles Howard Moses, III

Conflict of Interest

The Company does not have a written conflict of interest policy. Officers and directors are required to execute a conflict of interest form on an annual basis. The form used by the Company lists firms and professional individuals that the Company does business with and asks if the signatory has a conflict of interest, or potential conflict of interest, with any of the listed firms or individuals.

Conflict of interest statements executed during the examination period were reviewed. It was noted that one of the Company's officers had apparently never executed a conflict of interest statement.

Fidelity Bond and Other Insurance

The Company was insured with a fidelity bond issued by The St. Paul Insurance Company during the examination period in an aggregate amount that met the suggested minimum requirements of the NAIC Financial Condition Examiner's Handbook. The fidelity bond provided coverage for dishonesty and fraudulent acts of salaried officers, employees and employees under employment contracts.

In addition to the above coverage, the Company was a named insured under policies providing the following protection at December 31, 2000:

- Directors and Officers Liability Insurance
- Office Contents
- Building Liability Insurance
- Business Personal Property
- Workers Compensation
- Employers Liability

The Coverage and limits of the Company's insurance were reviewed and were deemed to adequately protect the Company's interest.

EMPLOYEE WELFARE

Benefits provided by the Company to its employees included the following at December 31, 2000:

- Vacation and sick Leave
- Paid Holidays
- Medical and Dental Plan

The Company also provided two qualified retirement plans for its employees.

REINSURANCE

Reinsurance Assumed

The Company has not assumed any reinsurance during its history.

Reinsurance Ceded

The Company's ceded reinsurance program is administered by intermediary, Willis Re, Inc. Reinsurance coverage was provided, on a claims made basis, for new and renewal

policies classified as attorneys' professional liability. All the reinsurance contracts in effect at December 31, 2000, contained acceptable intermediary clauses and insolvency clauses. All the aforesaid reinsurance contracts were on an annual term. They were renewed each year of the examination period, with changes in retention, limits and subscribing reinsurers. Otherwise, the basic contracts were very similar.

It was noted that one of the reinsurers, Swiss Reinsurance Company, and three of the Lloyds syndicates participating in the Company's reinsurance contracts were not accepted reinsurers by the Alabama Department of Insurance. There was no evidence that these entities had filed form AL-AR-1 (Certificate of Assuming Reinsurer) with the Department; and, no evidence of their acceptability as reinsurers was available. Form AL-AR-1 certifies an assuming reinsurer's submission to the authority of the Alabama courts and the Alabama Insurance Commissioner. Credit for reinsurance with the aforesaid reinsurers is not allowed in accordance with Section 27-5-12e, *Code of Alabama*, 1975 and Departmental Regulation Number 105, Section 13. At December 31, 2000, the Company took \$5,000 credit for reinsurance ceded to the Swiss Reinsurance Company and no credit for reinsurance with the Lloyd's syndicates. The \$5,000 amount is not material and no related change has been made in the financial statements of this report.

Descriptions of reinsurance coverages and participating reinsurers under the Company's reinsurance contracts, in effect from August 1, 2000 to July 31, 2001, are as follows:

Casualty Excess of Loss

Coverage – 100% of the difference between \$1,000,000 ultimate net loss each claim, each policy; and, \$125,000 ultimate net loss each claim, each policy.

Participating Reinsurers:	<u>FID#/NAIC Code</u>	<u>% Participation</u>
Hannover Ruckversicherungs	1340125	24.50
PMA Reinsurance Corp.	39675	5.00
Transatlantic Reinsurance Co.	19453	15.00
QBE Insurance	1780070	5.25
Terra Nova Insurance Co.	1121425	5.07
UnionAmerica Insurance Co.	1121480	3.50
Zurich Re, Ltd.	1120001	16.75
Lloyd's syndicates	various	<u>24.93</u>
Total participation		<u>100.00</u>

First Casualty Excess

Coverage – \$1,000,000 ultimate net loss each policy, each and every claim in the aggregate for any one original policy period, excess of \$1,000,000 ultimate net loss each policy, each and every claim in the aggregate for any one original policy period.

Participating Reinsurers:	<u>FID#/NAIC Code</u>	<u>% Participation</u>
Hannover Ruckversicherungs	1340125	15.00
PMA Reinsurance Corp.	39675	5.00
Transatlantic Reinsurance Co.	19453	5.00
QBE Insurance	1780070	7.42
Terra Nova Insurance Co.	1121425	6.70
UnionAmerica Insurance Co.	1121480	6.75
Zurich Re, Ltd.	1120001	20.50
Lloyds' syndicates	various	<u>33.63</u>
Total participation		<u>100.00</u>

Casualty Excess

Coverage – up to 100% of \$5,000,000 each and every claim each original policy and/or in the aggregate each original policy in excess of \$5,000,000 each and every claim each original policy and/or in the aggregate each original policy. The reinsurer shall have the option of increasing the aggregate amount applicable to the limit and retention to \$10,000,000 for each policy covered hereunder.

Participating Reinsurers:	<u>FID#/NAIC Code</u>	<u>% Participation</u>
Swiss Reinsurance Co.	1121400	23.50
Zurich Re, Ltd.	1120001	9.00
Lloyd's syndicates	various	<u>67.50</u>
Total participation		<u>100.00</u>

Semi-Automatic Facultative Facility

Coverage – up to \$10,000,000 ultimate net loss each and every claim and/or in the aggregate each policy covered, in excess of \$10,000,000 ultimate net loss each and every claim and/or in the aggregate each policy covered.

Participating Reinsurers:	<u>FID#/NAIC Code</u>	<u>% Participation</u>
Swiss Reinsurance Co.	1121400	50.00
Zurich Re, Ltd.	1120001	9.17
Lloyd's syndicates	various	<u>40.83</u>
Total participation		<u>100.00</u>

MARKET CONDUCT

Plan of Operation

As previously discussed, in "Organization and History," the Company was organized for the purpose of writing malpractice insurance for attorneys practicing law in the State of Alabama. Management stated that the Company has no plans to offer any other insurance products or to expand to any other territories.

The Company's only licensed agent is a vice president who is also in charge of underwriting. She is not paid commissions.

Policy Forms and Underwriting

The Company's only policy form was filed with and approved by the Alabama Department of Insurance. Said policy provides professional liability (malpractice) insurance to attorneys who reside in and practice law in Alabama. Membership in the Alabama State Bar is a prerequisite to issuance of a policy with the Company. Currently the Company is authorized to underwrite policy limits from \$100,000 to \$5,000,000.

Compliance With Agents Licensing Requirements

At December 31, 2000, the Company had only one licensed agent. This agent was also a vice president of the Company and was not paid commissions. The Company did not pay any commissions to any agent during the examination period.

Marketing and Advertising

The Company had no formal advertising program during the examination period. The Company did a limited amount of print advertising in periodicals, which were related to the legal profession and also produced a quarterly newsletter (*Attorneys Insurance Mutual of Alabama Inc. Newsletter*) that is distributed to policyholders of the Company and the members of the Alabama State Bar. The Company has a web page that gives the background of the Company and information on coverage issues, deductibles, exclusions, premium rates, "units" (debentures), tail coverage and contact information for prospective attorneys who are seeking malpractice insurance. The website address is (<http://www.attysinsmut.com>).

The Company's advertising files were reviewed and found to be in compliance with applicable Alabama Department of Insurance regulations.

Claims Payment Practices

A sample of both open and closed claims was reviewed with regard to compliance with policy provisions, timeliness of payments, and adequacy of documentation.

Timeliness of payment was difficult to evaluate because of the nature of the Company's business. Due to the fact that the Company only writes malpractice insurance for attorneys, virtually all the Company's claims are litigated and settlements are often protracted.

The best evidence that the Company's claims were settled in a timely manner and in accordance with policy provisions was the absence of complaints by claimants or others during the examination period.

Complaints

The Company did not have a complaints register. Company officials stated that they had never initiated a complaints register because they had never had a complaint. The records of the Alabama Department of Insurance did not evidence any complaints against the Company during the examination period.

ACCOUNTS AND RECORDS

Internal Controls and Data Processing Systems

The Company's internal controls and information systems were evaluated by observation, by interviewing Company personnel, and by reviewing NAIC Internal Control and Information Systems questionnaires completed by the Company.

As of December 31, 2000, the Company had five full time employees and three other part-time people on a consulting basis. This small number of personnel did not allow for proper segregation of duties, and did not facilitate proper internal controls or information systems controls. Internal Controls and Information System controls were not relied upon for any phase of the examination.

External Audits and Actuarial

The certified public accounting (CPA) firm, Hardman, Guess, Frost, and Cummings, P.C audits the Company annually, on the basis of statutory accounting principles. The audit reports and audit work papers of said CPA firm were made available to the examiners, and have been utilized in the current statutory examination where deemed appropriate by the examiners. The CPA firm did not issue any management letters during the period covered by this examination.

It was also noted that the external auditors did not audit the Company's loss reserves and qualified their opinion on the adequacy of the loss reserves, citing the Company's lack of loss history.

The Company's reserves were certified, as of December 31, 2000, by Matthew P. Merlino, FCAS, MAAA of Merlino & Associates, Inc., Atlanta, GA.

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the operations of the Company for the years under examination and financial condition at December 31, 2000, consist of the following:

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the Period Ended December 31, 2000

	<u>ASSETS</u>			
	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$ 9,945,505			\$ 9,945,505
Common stocks	595,875	\$ 272,342		868,217
Real estate - investment	1,029,174			1,029,174
Cash on deposit	1,044,534			1,044,534
Short-term Investments	248,788			248,788
Reinsurance recoverables on loss and loss adjustment expense payments	88,143			88,143
Data processing equipment	18,098			18,098
Interest, dividend and real estate income due and accrued	157,710			157,710
Other assets nonadmitted	109,555		\$ 109,555	
Due from insureds	36,333		21,015	15,318
Utility deposits	1,000		1,000	
Prepaid insurance	11,322		11,322	
Total Assets	<u>\$ 13,286,037</u>	<u>\$ 272,342</u>	<u>\$ 142,892</u>	<u>\$ 13,415,487</u>

LIABILITIES SURPLUS AND OTHER FUNDS

Liabilities

Losses	\$ 2,929,000
Loss adjustment expenses	2,674,000
Other expenses	18,712
Taxes, licenses and fees	31,234
Federal income taxes	145,000
Unearned premiums	982,470
Amounts withheld or retained by Company for account of others	3,563
Provision for reinsurance	49,000
Unallocated remittances	47,242
Reinsurance payable (Note-1)	190,155
	<u>\$ 7,070,376</u>

Surplus and Other Funds

Loan guarantee (surplus note)	\$ 837
Surplus notes	2,999,000
Gross paid in and contributed surplus	1,098,666
Unassigned funds (surplus) (Note-2)	<u>2,246,608</u>
Surplus as regards policyholders	6,345,111
Total liabilities, surplus and other funds	<u>\$ 13,415,487</u>

STATEMENT OF INCOME

For the Periods Ended,

	<u>December 31, 2000</u>	<u>December 31, 1999</u>	<u>December 31, 1998</u>	<u>December 31, 1997</u>	<u>December 31, 1996</u>
Underwriting income:					
Premiums earned	\$ 1,762,164	\$ 1,834,331	\$ 2,464,501	\$ 2,151,612	\$ 1,949,384
Deductions:					
Losses incurred	\$ (649,745)	\$ 671,309	\$ 670,836	\$ 347,538	\$ 841,785
Loss expenses incurred	1,604,772	689,418	1,076,083	801,345	632,090
Other underwriting expenses incurred	840,050	842,239	888,168	777,394	745,350
Total deductions	\$ 1,795,077	\$ 2,202,966	\$ 2,635,087	\$ 1,926,277	\$ 2,219,225
Net underwriting gain (loss)	\$ (32,913)	\$ (368,635)	\$ (170,586)	\$ 225,335	\$ (269,841)
Investment income:					
Net investment income earned	\$ 582,497	\$ 560,939	\$ 508,540	\$ 508,861	\$ 463,805
Net realized capital gains (losses)	24,963	14,481	8,295	4,484	-
Net investment gain (loss)	\$ 607,460	\$ 575,420	\$ 516,835	\$ 513,345	\$ 463,805
Other income:					
Gain on sale of furniture		\$ 4,500			
Total other income		\$ 4,500			
Net income before dividends and taxes	\$ 574,547	\$ 211,285	\$ 346,249	\$ 738,680	\$ 193,964
Federal income taxes incurred	145,704	2,062	80,416	128,435	52,177
Net income	\$ 428,843	\$ 209,223	\$ 265,833	\$ 610,245	\$ 141,787

RECONCILIATION OF SURPLUS AS REGARDS POLICYHOLDERS

For the Periods Ended,

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Surplus as regards policyholders, January 1,	\$ 6,089,848	\$ 5,530,972	\$ 5,002,553	\$ 4,154,170	\$ 3,715,436
Net income	\$ 428,843	\$ 209,223	\$ 265,833	\$ 610,245	\$ 141,787
Net unrealized capital gains or (losses)	(238,208)	195,488	124,637	85,139	58,734
Change in non-admitted assets	26,957	(54,335)	(4,107)	(32,832)	(12,694)
Change in provision for reinsurance	16,000	7,000	(28,000)	(30,083)	(11,843)
Paid in surplus	21,671	201,500	170,056	215,914	262,750
Change in surplus as regards policyholders	\$ 255,263	\$ 558,876	\$ 528,419	\$ 848,383	\$ 438,734
Surplus as regards policyholders, December 31,	\$ 6,345,111	\$ 6,089,848	\$ 5,530,972	\$ 5,002,553	\$ 4,154,170

CAPITAL GAINS AND LOSSES

For The Year Ended December 31, 2000

	<i>Profit on Sales or Maturities</i>	<i>Loss on Sales or Maturities</i>	<i>Difference Between Book and Admitted Values</i>	<i>Total Gain or (Loss)</i>
U.S. government bonds	\$ 18,205	\$ 14,466		\$ 3,739
Bonds exempt from U.S. tax	27,286	541		26,745
Other bonds (unaffiliated)	3,102	23,133		(20,031)
Common stocks (unaffiliated)	54,141	39,631	\$ (238,208)	(223,698)
Totals	\$ 102,734	\$ 77,771	\$ (238,208)	\$ (213,245)
Net realized capital gains				\$ 24,963
Net unrealized capital losses				\$ (238,208)

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Reinsurance Payable

\$190,155

The captioned amount is the same as reported in the Company's 2000 Annual Statement.

The Company reported a contingent liability for reinsurance premiums, in the amount of \$1,560,000 in its 2000 Annual Statement, "Note 10 – Notes to the Financial Statements." This contingency was reported in the maximum amount required by the Company's reinsurance contracts. It relates to retrospective premiums, and amounts to the difference between the maximum premium and the provisional premium required by the contracts. Company records indicated that historically, the Company has never paid more than the provisional premium. The contingency appears to have been properly accounted for and reported.

Note 2 – Unassigned Funds (surplus)

\$2,246,608

The amount of unassigned funds per examination is the same as reported in the Company's 2000 Annual Statement. Variances in account balances determined by the examination were all deemed to be immaterial in amount and no significant non-compliance was disclosed related to financial statement items.

CONTINGENT LIABILITIES AND PENDING LITIGATION

Examination for contingencies and pending litigation included review of: the Company's annual statement disclosures; minutes of the corporate governing bodies; pending claims; and, the usual examination of the accounts for unrecorded items. No material unreported contingencies were noted; and, all pending litigation against the Company appeared to be within the ordinary course of its business. Also see "Note 1 – Reinsurance Payable."

The Company's President and its Treasurer executed a letter of representation attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2000.

SUBSEQUENT EVENTS

The review of events subsequent to December 31, 2001 and up to the date of this report included: review of the Company's 2001 Quarterly Statements; review of certain receipts and disbursements through March 31, 2001; review of corporate records

through September of 2001; and, inquiries of Company management. The only significant subsequent event disclosed by this review was as follows. On September 19, 2001, the Company's Board of Directors resolved to repurchase its surplus debentures in amounts of up to \$300,000 per year, subject to approval from the Alabama Department of Insurance.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

It appeared that the Company had complied with all recommendations made as a result of the examination report as of December 31, 1995.

COMMENTS AND RECOMMENDATIONS

Management and Control (Committees) – Page 5

It is recommended that the Company keep records of the actions taken by its claims committee, in compliance with Section 10-2B-16.01(a), *Code of Alabama*, 1975.

Management and Control (Conflict of Interest) – Page 6

It was noted that one Company vice president had not executed a conflict of interest statement during the examination period. It is recommended that the Company obtain conflict of interest statements from all officers, directors and other personnel who handle Company funds.

It is further recommended that the Company reduce its conflict of interest policy to writing and document its approval by the Board of Directors.

Reinsurance – Page 7

It is recommended that the Company not take credit for reinsurance ceded to reinsurers that are not accepted by the Alabama Department of Insurance, in compliance with Section 27-5-12e, *Code of Alabama*, 1975, and Departmental Regulation Number 105, section 13.

Accounts and Records (External Audits and Actuarial) – Page 11

It is recommended that the Company require its external auditors to include an audit of loss/loss adjustment expense reserves in their future audits of the Company.

Note 1 - Reinsurance Payable – Page 17

It was noted that the Company disclosed a contingent liability for retrospective reinsurance premiums payable, in the amount of \$1,560,000, in its 2000 Annual Statement. The contingency was required by reinsurance contracts. It appeared to have been properly accounted for and reported.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by representatives of **Attorneys Insurance Mutual of Alabama, Inc.** during this examination.

The customary examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

Examination findings indicated that the Company was in sound financial condition as of December 31, 2000.

In addition to the undersigned, the following persons represented the Alabama Department of Insurance as participants in this examination: Thomas W. Salo, and Theophilos C. Goodin, examiners; Glenn Taylor, ACAS, MAAA, consulting actuary.

Respectfully submitted,
April 16, 2002

A handwritten signature in black ink, appearing to read 'Rex H. Newborn', written in a cursive style.

Rex H. Newborn, CFE
Examiner-in-Charge
Alabama Department of Insurance



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
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D. DAVID PARSONS
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DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

September 10, 2001

Mr. Henry T. Henzel
President
Attorneys Insurance Mutual of Alabama
200 Inverness Parkway
Birmingham, AL 35242-4813

Re: Financial Examination As Of December 31, 2000

Dear Mr. Henzel:

This letter is to inform you of a financial examination of your company called by the Alabama Department of Insurance and to authorize Rex Newborn, CFE, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners.

Your examination is to commence on or about October 15, 2001, and will be conducted primarily in your offices. The expected duration of the examination is approximately three months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Mr. Newborn regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of October 15, 2001, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

Richard L. Ford, CFE
Chief Examiner and Acting Deputy Commissioner

RLF:dk
Enclosures

cc: Jack M. Brown, CFE
Rex Newborn, CFE
Jill Ellis

EQUAL OPPORTUNITY EMPLOYER



DON SIEGELMAN
GOVERNOR

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January 17, 2002

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JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
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RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

Glen Taylor
Taylor-Walker & Associates, Inc.
Actuarial Consulting Group
P. O. Box 156
7681 North Main
Midvale, UT 84047

Re: Examination of Attorneys Insurance Mutual of Alabama
As of December 31, 2000

Dear Mr. Taylor:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination began November 7, 2001. The examination for this company is being conducted in the company's offices at 200 Inverness Parkway, Birmingham, AL 35242-4813, and will cover the period ending December 31, 2000. The expected duration of the examination is approximately two months.

The Examiner-in-Charge is Mr. Rex Newborn. Please contact him at the company to coordinate the scheduling of your portion of this examination. The company's telephone number is (800) 526-1246.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE
Rex Newborn, CFE
Jill Ellis



DON SIEGELMAN
GOVERNOR

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JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

April 12, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Henry T. Henzel
President
Attorneys Insurance Mutual of Alabama, Inc.
200 Inverness Parkway
Birmingham, AL 35242-4813

**RE: Attorneys Insurance Mutual of Alabama, Inc.
Report of Examination as of December 31, 2000**

Dear Mr. Henzel:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2000. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Rex Newborn, CFE
Jill Ellis



DON SIEGELMAN
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LICENSING MANAGER
JIMMY W. GUNN

April 15, 2002

CONFIDENTIAL

NOT A PUBLIC DOCUMENT

MEMORANDUM

	<u>Date Rec'd</u>	<u>Date Fwd</u>
TO: Examiners Division <i>MS</i>		
Life & Health Division <i>MS</i>	<u>4/18</u>	<u>4/18</u>
Property & Casualty Division <i>MS</i>	<u>4-15</u>	<u>4-15</u>
Legal Division <i>RW</i>	<u>4/15/02</u>	<u>4/15/02</u>
Commissioner Parsons	<u>5/2</u>	<u>5/2</u>
FROM: Richard L. Ford Chief Examiner		
RE: Domestic Company Report on Examination		

The attached report covers the recently completed examination of Attorneys Insurance Mutual of Alabama, Inc. as of December 31, 2000 and is being circulated for your information. Inasmuch as this report has not yet been filed as a public document, the information contained therein is confidential and for Department use only.

After circulation, please return this report to me. Thank you.

NOTE: Routing sequence is designed to furnish Commissioner Parsons with comments of the reviewing staff.

COMMENTS:



Attorneys Insurance Mutual of Alabama, Inc.

200 Inverness Parkway • Birmingham, Alabama 35242-4813

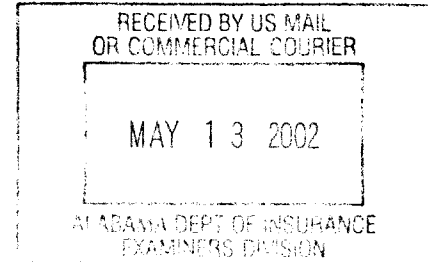
Telephone 205-980-0009 • Toll Free 800-526-1246 • FAX 205-980-9009

VIA FAX
334-240-3194

&

CERTIFIED MAIL
7000 0520 0013 7079 9356

May 10, 2002



Richard L. Ford, Esq.
Chief Examiner
Alabama Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Re: Response to "Report on Examination
as of Dec. 31, 2000."

Dear Richard:

Attorneys Insurance Mutual of Alabama, Inc. ("AIM"), herein respectfully submits its corrections, comments and requests concerning the above-referenced examination.

Page 3

In the first paragraph, policyholders' surplus and the amount funded by surplus debentures is referred to as \$3,715,436 and \$2,410,000, respectively. The correct figures are: \$6,345,111 and \$2,999,000, respectively.

Page 6

In the listing under "Officers," Cathy "Sue" Wright should be listed as Cathy "Suzanne" Wright.



Page 7

Under "Reinsurance Ceded," "Wilis" Re is properly "Willis" Re.

Page 8

AIM requests that in the first paragraph carried over from the preceding page, that the second sentence (beginning "each contract also . . .") be deleted in its entirety.

In the second paragraph, Swiss Reinsurance is noted as being unauthorized in the 2000 Annual Statement with \$5,000 reported as Reinsurance Recoverable not \$7,000 as stated in the report. The \$5,000 was covered by a \$5,000 letter of credit from Swiss Re.

Page 10

Under "Policy Forms and Underwriting," the statement that "the company underwrites policy limits from \$100,000 to \$5,000,000 is not wholly accurate. AIM, during the years covered by the examination period, underwrote policies up to \$10,000,000 and through a quasi-treaty had the ability to underwrite policies up to \$20,000,000.

Page 12

In paragraph 3, "AAA" should be "MAAA" and "Merlinos, Inc." should be "Merlinos & Associates, Inc."

Page 17

Under "Note 1 -- Reinsurance Payable," ¶ 2, line 1, "contingent liability" should be "maximum contingent liability."

Page 18

Comments & Recommendations
"Management & Control (Committees) - Page 5"

The conclusion that records of the claims committee's activities are not kept is incorrect. This error occurs here (page 18) and in the first two paragraphs of page 6. AIM did not suggest that because the claims committee uses telephone conferences that there are no records. To the contrary, AIM advised the examiner by memo dated February 6, 2002, that:

By telephone conference, the Claims Committee members provide legal advice and counsel to claims counsel of AIM. The conference advice to AIM claim counsel is reduced by him to confidential and privileged memos kept in the individual claim files.

On February 11, 2002, the examiner suggested:

. . . you seem to imply that there were no minutes kept for the Claims Committee, ostensibly, because the meetings were held by telephone conference.

Please reply as to whether or not there are minutes of the Claims Committee . . .

Advice was then given to the examiner by AIM on February 13, 2002:

. . . that is not the correct inference. The work of the committee is not the subject matter for which minutes are produced. There are none.

Thereafter the examiner contended by memo of February 14, 2002, (with a copy of Ala. Code 1975, § 10-2B-16.01, attached) that:

It appears that [AIM] is in violation of the attached Alabama Corporate Statute.

To which AIM explained on February 15, 2002:

The statute's clear language does not call for "minutes" for committee meetings. Committees, at most, may have to keep a "record" of their actions, not "minutes." Our records of committee meetings are in compliance with the applicable provisions of Alabama's corporate code.

On February 19, 2002, the examiner continued this inquiry thusly:

Please provide "records of the actions" of the Claims Committee for the year 2000.

AIM then responded on February 25, 2002, reiterating the following advice:

As you were advised in my response dated February 6, 2002, to you[r] Memo No. 13 dated January 30, 2002, the Claims Committee provides “advice to AIM claims counsel” and is reduced by him to writings which are “confidential and privileged memos kept in the individual claims files.”

Throughout the examination AIM has claimed privilege as to documents and writings covered by the attorney-client, work product doctrine, and related privileges. These “records” exist but due to their privileged nature were not produced:

...it was noted that the company withheld certain portions of its claims files from the examiner using attorney-client privilege as justification¹.

AIM continues to assert privilege as to advice and counsel provided by the claims committee to AIM’s claims counsel. AIM agrees that if the claims committee meets for other, non-privileged action, it will maintain appropriate records for the examiner’s review. Since AIM’s records are accurate and complete under the law, this recommendation should be removed from page 4 (“Corporate Records” ¶ 2); page 6 (¶¶ 1 & 2) and page 18.

Page 18

“Management & Control (Conflict of Interest) - Page 6”

AIM observes, in response to this recommendation, that the non-director vice president did not execute a conflict of interest form because she is not employed outside of AIM and, therefore, provides no outside services to have a conflict of interest. She is, thus, distinguished from the directors of this company who are, or were, involved in the practice of law and, thereby, might encounter a conflict of interest from their law practices. For this reason, the vice-president has not previously been asked to sign a conflict of interest form. As practicing attorneys, the AIM Board of Directors has considered itself governed by the conflict of interest rules provided in the Alabama Code of Professional Responsibility. AIM does not object to memorializing its conflict of interest policy and having its vice-president execute a conflict of interest form.

¹Comment on page 18 “market conduct (claims payment practices) - page 10, etc.”

Page 18

“Reinsurance - Page 7”

AIM observes that it was unaware that any reinsurers had not executed a required form with the Department of Insurance providing for submission to jurisdiction. Assuming this to be the case, AIM points out that its treaties with its reinsurers have a jurisdiction clause making them amenable to suit within Alabama. AIM will request its reinsurers to complete the AL-AR-1 form if the Department of Insurance will advise which Lloyd’s syndicates its records show have not executed such form (page 8, ¶ 2).

Page 18

“Market Conduct (Claims Payment Practices) - Page 10
Accounts & Records - Page 11”

During the course of the examination an amicable working agreement was achieved covering the issue noted in this comment. AIM has provided freely and willingly all financial data relevant to the audit to the examiner. As already noted, it has sought only to protect privileged and confidential material afforded protection under the U.S. and Alabama constitutions, common law and other precedent and authority. Having reached an agreement on this issue during the examination, this comment is inappropriate and not in keeping with the gentlemanly accord that was reached. AIM requests it be removed from pages 11 and 18-19.

Page 19

Note 1 -- Reinsurance Payable -- Page 17

AIM acknowledges that this comment is factually correct but fails to see the need to state this or the appropriateness of including same in the report of examination as a comment or recommendation. This occurs on page 17 (“Note 1, ¶ 2) and page 19.

Page 19

Accounts and Records (External Audits and Actuarial) - - Page 12

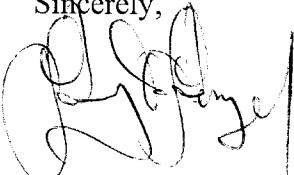
AIM observes that each year it has obtained an actuarial opinion on indemnity and loss adjustment expenses indicating that it has always been conservatively reserved. It will, however, request its independent auditor to include indemnity and loss adjustment expenses in future audits.

Page 20

Conclusion

The report is dated "April 16, 2000." The year "2000" should be "2002."

Sincerely,

A handwritten signature in black ink, appearing to read "H. Henzel", written over a horizontal line.

Henry T. Henzel, Esq.
President

HTH/mc



**GOVERNOR
DON SIEGELMAN**

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE**

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**COMMISSIONER
D. DAVID PARSONS**

**Chief Examiner
Richard L. Ford**

**State Fire Marshal
John S. Robison**

**General Counsel
Michael A. Bownes**

MEMORANDUM

To: Richard Ford, Chief Examiner

From: Rex Newborn, Tom Salo, Theo Gooden

Date: June 10, 2002

Re: AIM Examination Report – Responses by Henry Henzel

The changes to the examination report proposed by Mr. Henzel, except those relating to the comments and recommendations section of the report, are mostly typographical errors and errors in dates. These errors will be corrected by the examiners. Changes proposed by Mr. Henzel that are not acceptable to the examiners are as follows:

Regarding page 8 of the report, the examiners will remove the discussion of the reinsurance coverage for extra-contractual obligations that Mr. Henzel finds objectionable. The examiners will also accept Mr. Henzel's amount for the reinsurance recoverable from Swiss Re (\$5,000 rather than \$7,000). Nevertheless, Swiss Re was determined to be "not accepted" as a reinsurer in Alabama, and the letter of credit mentioned by Mr. Henzel does not change its status.

Mr. Henzel offers one or more corrections/comments/requests concerning every item in the comments and recommendations section of the report. After reviewing Mr. Henzel's requested changes and the related parts of the report, the examiners believe that the comments and recommendations section is accurate and appropriate as written; and, we are not inclined to make any changes.

Specific responses to each of Mr. Henzel's objections to the report would require taking a significant amount of time away from the examination that we are currently performing. Furthermore, we don't see a lot of potential for compromise on the disagreements pertaining to the comments and recommendations. As regards attorney/client privilege, the examiners feel that they have made every effort to avoid this issue, short of compromising the integrity of the examination.



DON SIEGELMAN
GOVERNOR

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LICENSING MANAGER
JIMMY W. GUNN

June 26, 2002

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. Henry T. Henzel
President
Attorneys Insurance Mutual of Alabama, Inc.
200 Inverness Parkway
Birmingham, AL 35242-4813

RE: Attorneys Insurance Mutual of Alabama, Inc.
Report of Examination as of December 31, 2000

Dear Mr. Henzel:

Enclosed is a revised copy of the Report of Examination of the above-cited company as of December 31, 2000.

Unless we hear from you within ten (10) days, the report will be filed as a final and public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,


Richard L. Ford, CFE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosure

cc: Jack M. Brown, CFE
Rex Newborn, CFE
Jill Ellis



Attorneys Insurance Mutual of Alabama, Inc.

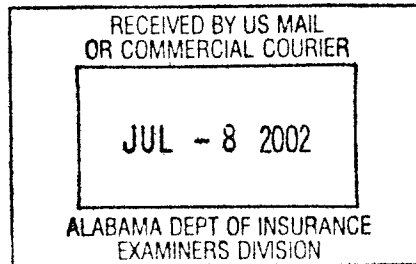
200 Inverness Parkway • Birmingham, Alabama 35242-4813

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**VIA FAX
334-240-3194**

&

**CERTIFIED MAIL
7106 4574 1292 2067 0639**



July 3, 2002

Richard L. Ford, Esq.
Chief Examiner
Alabama Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Re: Response to "Revised Report on
Examination as of Dec. 31, 2000."

Dear Richard:

I am in receipt of your letter of June 26, 2002, enclosing a copy of the revised report of examination. We have two concerns which still trouble us even with the revisions to the report. We must take exception to the examiner's conclusion on page 18 of the revised report under "Management and Control (Committees) - Page 5," wherein it is stated:

It is recommended that the Company keep records of the actions taken by its claims committee, in compliance with Section 10-2B-16.01(a), *Code of Alabama*, 1975.



Letter of Henry T. Henzel, Esq., President, to:
Richard L. Ford, Esq., Chief Examiner;
Re: Response to "Revised Report on
Examination as of Dec. 31, 2000"
July 3, 2002;
Page 2 of 3.

AIM also takes exception to the comment found on pages 18 and 19, in "Market Conduct (Claims Payment Practices) - Page 10; Accounts and Records - Page 11," wherein it is stated:

It was noted that the Company withheld certain portions of its claims files from the examiners using attorney-client privilege as justification. Withholding any Company records from examiners is deemed to be a violation of Section 27-2-23(b) *Code of Alabama*, 1975. Said statute states: "Every person being examined, its officers, attorneys, employees, agents and representatives, shall make freely available to the commissioner or his examiners the accounts, records, documents, files, information, assets and matters in his possession or control relating to the subject of the examination."

In my letter to you dated May 10, 2002, regarding the above-quoted recommendation concerning the claims committee, I observed (page 4) that:

Throughout the examination AIM has claimed privilege as to documents and writings covered by the attorney-client, work product doctrine, and related privileges. These "records" exist but due to their privileged nature were not produced:

. . . it was noted that the company withheld certain portions of its claims files from the examiner using attorney-client privilege as justification¹.

AIM continues to assert privilege as to advice and counsel provided by the claims committee to AIM's claims counsel. AIM agrees that if the claims committee meets for other, non-privileged action, it will maintain appropriate records for the examiner's review. Since AIM's records are accurate and complete under the law, this recommendation should be removed from page 4 ("Corporate Records" ¶ 2); page 6 (¶¶ 1 & 2) and page 18.

Also, in my letter of May 10, 2002, regarding the above-quoted comment under "Market Comment (Claims Payment Practices) - Page 10; Accounts and Records - Page 11, "I observed

¹Comment on page 18 "market conduct (claims payment practices) - page 10, etc."

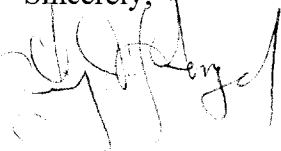
Letter of Henry T. Henzel, Esq., President, to:
Richard L. Ford, Esq., Chief Examiner;
Re: Response to "Revised Report on
Examination as of Dec. 31, 2000"
July 3, 2002;
Page 3 of 3.

(page 5) that:

During the course of the examination an amicable working agreement was achieved covering the issue noted in this comment. AIM has provided freely and willingly all financial data relevant to the audit to the examiner. As already noted, it has sought only to protect privileged and confidential material afforded protection under the U.S. and Alabama constitutions, common law and other precedent and authority. Having reached an agreement on this issue during the examination, this comment is inappropriate and not in keeping with the gentlemanly accord that was reached. AIM requests it be removed from pages 11 and 18-19.

AIM restates and reiterates its position regarding the above-quoted recommendation and comment in the revised report on examination. We are very concerned about the issues of privilege and confidentiality as it affects our claims files and procedures. Given the importance of these issues and the concern we have for maintaining privilege and confidentiality, we must respectfully contest the continued inclusion of the above-quoted language and conclusions in the recommendation and comment in the report on examination of December 31, 2000, as revised. We respectfully request the Department's further consideration of these issues and will be glad to assist in facilitating further review and understanding of the principals and matters involved.

Sincerely,

A handwritten signature in dark ink, appearing to read "H. T. Henzel", written over a light blue horizontal line.

Henry T. Henzel, Esq.
President

HTH/mc



**GOVERNOR
DON SIEGELMAN**

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE**

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**COMMISSIONER
D. DAVID PARSONS**

**Chief Examiner
Richard L. Ford**

**State Fire Marshal
John S. Robison**

**General Counsel
Michael A. Bownes**

MEMORANDUM

To: Richard Ford, Chief Examiner

From: Rex Newborn

Date: July 17, 2002

Re: AIM Examination Report

This is in response to Henry Henzel's letter dated July 3, 2002. It appears that all of Mr. Henzel's current objections to the report relate to attorney-client privilege.

The report cites the Company for a violation of Section 10-2B-16.01(a) *Code*, because the records of the Claims Committee were not in evidence. Mr. Henzel insists that the records exist but are privileged information. He concludes his discussion of the Claims Committee records by stating, "Since AIM's records are accurate and complete under the law....," the report should be changed. The examiners could not verify that the actions of AIM's Claims Committee were recorded, so we have only Mr. Henzel's affirmation that AIM's records are accurate and complete.

On the subject of attorney-client privilege, Tom Salo raised the following question which I am not able to answer. Why does Mr. Henzel's (not to mention other AIM employees) review of these records not constitute a breach of attorney-client privilege? Mr. Henzel does not appear to represent his policyholders and/or claimants in an attorney-client relationship. Is it possible that privilege has been breached by Mr. Henzel, himself?

Mr. Henzel refers to a, "gentlemanly accord" that he continues to insist included agreement that the examiners would not report the Company's lack of compliance with Section 27-2-23(b), *Code*. There were several discussions wherein Mr. Henzel stated his position on attorney-client privilege, and the examiners stated and reiterated that they would not acquiesce to the withholding of any information that had any real or potential effect on the examination. The examiners agreed only that withholding of information would not become an issue, and that we would not ask for Department intervention, as long as all information necessary to complete a proper examination of the Company was provided. At the conclusion of the examination, the examiners were satisfied that all information necessary to verify the financial position of the Company had been reviewed. Therefore, we did not qualify the report or limit the examination scope. However, all information necessary to perform all examination procedures, particularly market conduct procedures, was not provided to the examiners. The examiners believe that we are obligated to report the Company's willful non-compliance with the aforesaid statute.

Attorneys Insurance Mutual of Alabama, Inc.
200 Inverness Parkway • Birmingham, Alabama 35242-4813

Telephone 205-980-0009

Toll Free 800-526-1246

FAX 205-980-9009

FAX COVER SHEET

DATE: August 9, 2002
TIME: 4:52 p.m. (CENTRAL)
TO FAX: (334) 240-7581
FROM FAX: (205) 980-9009
ATTN: John J. Davis, Esq.
FROM: Henry T. Henzel, Esq.
President
RE: In re the matter of:
Attorneys Insurance Mutual
of Alabama, Inc.
(Case No. G-2002-JD).

MESSAGE:

**NO. OF PAGES
FOLLOWING:** Two

HTH/mc

**Attorneys Insurance Mutual of Alabama, Inc.**

200 Inverness Parkway • Birmingham, Alabama 35242-4813

Telephone 205-980-0009 • Toll Free 800-526-1246 • FAX 205-980-9009

**VIA FAX
(334) 240-7581****&****CERTIFIED MAIL ARTICLE
NO. 7106 4575 1292 2067 2060**

August 9, 2002

Michael A. Bownes, Esq.
John J. Davis, Esq. ✓
State of Alabama
Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Re: In re the matter of:
Attorneys Insurance Mutual
of Alabama, Inc.
(Case No. G-2002-JD).

Dear Mike & John:

This letter is a follow-up to our meeting and discussion on July 16, 2002, regarding the above-referenced matter, and is written in a spirit of compromise and settlement and without prejudice in the event same cannot be effected. As noted in my earlier correspondence, and as we discussed, AIM has concern with the examination report wherein, page 18, "Comments & Recommendations, 'Management & Control (Committees) - page 5,'" the examiner concludes that there are no claims committee records. During the course of the examination, AIM has made readily available all financial information regarding claims. The examination team has seen that information. Under the claim of privilege, AIM withheld the records of the claims committee's activities. This was for the reason (as previously explained) they contained information protected by a number of privileges and legal doctrines. (The claims committee provides legal advice and counsel to AIM's claims counsel on the claims that it reviews.) Over the last several years, national case law, both state and federal, has developed and come to the



Letter of Henry T. Henzel, Esq., President, to:

Michael A. Bownes, Esq., and

John J. Davis, Esq.;

Re: In re the matter of:

Attorneys Insurance Mutual

of Alabama, Inc.

(Case No. G-2002-JD);

August 9, 2002;

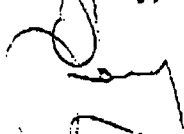
Page 2 of 2.

conclusion that disclosure of documents and information protected under attorney-client privilege and related doctrines constitutes a waiver of the privileges and/or protections that would otherwise apply. This is true even if disclosure is made to a governmental regulatory body. I provided this case law to you at our above-mentioned meeting. Since our meeting, it has come to my attention that the U.S. Sixth Circuit Court of Appeals has very recently squarely held that disclosure of privileged material to the government is a waiver of that privilege to the world. In re: Columbia/HCA Health Care Corporation Billing Practices Litigation (U.S. 6th Cir., No. 00-6059). Because of the trend in case law, AIM is concerned that disclosure of privileged material would work to a disadvantage of both its insureds and itself. Accordingly, I propose a compromise whereby, in the future, AIM will maintain records of the claims committee's activities so that a record will exist, showing changes in reserves (both loss adjustment expenses and indemnity) in the aggregate for all claims considered by the committee, by date, but without reference to subject matter discussed or identification of the individual claim. This will allow the examiners to check the weekly re-setting of our stated case reserves (both loss adjustment expense and indemnity) against the existing weekly accounting records. Hopefully this will satisfy the examiners by providing them with a mathematical check on the development of the reserves.

The other remaining issue involves the examiner's comment as found on pages 18 and 19 in "Market Conduct (Claims Payment Practices) - page 10; Accounts and Records - page 11." You recall that AIM's concern is with the examiner's comment wherein he states that we are violating Ala. Code 1975, § 27-2-23(b) by withholding portions of our claims files. The same concerns apply here as in the preceding issue. I still view this comment with amazement given the fact we had worked to resolve the concerns of the examination team during the audit, and I thought we had done so. My recollection is that you were going to review this matter with the examiner to inquire as to whether he would kindly change the comment.

I look forward to hearing from you regarding our continuing effort to resolve these issues.

Sincerely,



Henry T. Henzel, Esq.
President

HTH/mc



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

D. DAVID PARSONS
COMMISSIONER
DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
LICENSING MANAGER
JIMMY W. GUNN

BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA

IN THE MATTER OF:)
FINANCIAL CONDITION EXAMINATION OF)
ATTORNEYS INSURANCE MUTUAL OF ALABAMA INC))
AS OF DECEMBER 31, 2000)

ORDER

ON THE 23rd day of October, 2002, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Attorneys Insurance Mutual of Alabama, Inc. is a domestic insurer licensed for miscellaneous casualty, excluding official surety bonds in the State of Alabama.

FINDINGS OF FACT

1. That on April 16, 2002, the verified Financial Condition Examination Report of Attorneys Insurance Mutual of Alabama, Inc. was filed with the Insurance Department.
2. That following receipt of the December 31, 2000 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.
3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.
4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2000 Financial Condition Examination Report of Attorneys Insurance Mutual of Alabama, Inc. shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2000 Financial Condition Examination Report of Attorneys Insurance Mutual of Alabama, Inc. is hereby Adopted.
2. That Attorneys Insurance Mutual of Alabama, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Attorneys Insurance Mutual of Alabama, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Attorneys Insurance Mutual of Alabama, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by Attorneys Insurance Mutual of Alabama, Inc. to so comply may result in sanctions or administrative action; and further, that Attorneys Insurance Mutual of Alabama, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 23rd day of October 2002.

(SEAL)



D. David Parsons
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of
_____ Company, do hereby certify that the Report of Examination of
_____ Company as of _____, _____, was filed with all states in
which _____ Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the _____ day of _____, 2002.

Seal

Notary



Attorneys Insurance Mutual of Alabama, Inc.

200 Inverness Parkway • Birmingham, Alabama 35242-4813

Telephone 205-980-0009 • Toll Free 800-526-1246 • FAX 205-980-9009

Via Fax

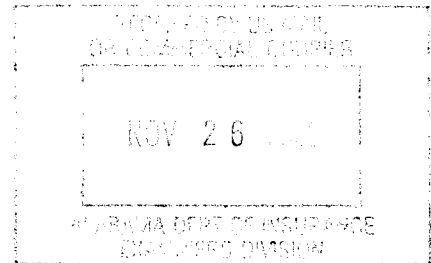
334-240-3194

&

Via Certified Mail

No. 7106 4575 1292 2066 3242

November 22, 2002



Richard L. Ford, Esq.
Chief Examiner
Alabama Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Re: Report on Examination of AIM;
as of December 31, 2000.

Dear Richard:

This letter is in response to the order of D. David Parsons, Commissioner, regarding the above-referenced examination and response to ¶ 4 of the order of October 23, 2002, concerning compliance with the recommendations. Regarding the first recommendation, that "the company keep records of the actions taken by its claims committee in compliance with Section 10-2B-16.01(a)," please be advised that AIM is keeping records in accordance with its agreement with the department.

Regarding the second recommendation, concerning the request that the vice president execute a conflict of interest statement, please be advised that she will execute future conflicts of interest statements. That accounts for all officers and directors. AIM does not have "other personnel" who handle company funds.

Regarding the recommendation that AIM have a written conflict of interest policy. A written policy will be approved at the next board of directors' meeting (December 6, 2002) and adopted at that time.

Regarding the recommendation that "the company not take credit for reinsurance ceded to reinsurers that are not accepted by the Alabama Department of Insurance," AIM agrees to this recommendation. By way of this letter I request that the Department advise as to which Lloyd's syndicates did not execute the required form and will, upon receiving that advice, request them to do so.



Letter of Henry T. Henzel, Esq., President;
to Richard L. Ford, Esq.

Re: Report on Examination of AIM;
as of December 31, 2000.

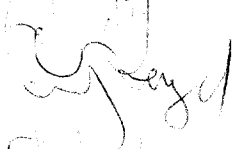
November 22, 2002

Page 2 of 2.

Regarding the recommendation that AIM's independent auditors "include an audit of loss/adjustment expense reserves in future audits," please be advised that AIM has requested its independent auditor to do so for future years.

Finally, enclosed is an affidavit required by the order. I hope that this is a sufficient response to the issues involved. If you need further information, or if I can be of additional assistance, kindly let me know. As always, I appreciate the department's understanding and help.

Sincerely,

A handwritten signature in dark ink, appearing to read "H. Henzel", written over a faint circular stamp.

Henry T. Henzel, Esq.
President

HTH/cf

Enc.: Affidavit of Henry T. Henzel, Esq., Pres.;
dated November 22, 2002.

STATE OF ALABAMA)
COUNTY OF SHELBY)

**Affidavit in Response to Order Regarding Report on Examination
of Attorneys Insurance Mutual of Alabama, Inc.,
as of December 31, 2000.**

I, Henry T. Henzel, President, of Attorneys Insurance Mutual of Alabama, Inc., do hereby certify the following:

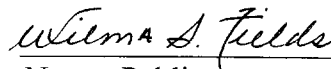
1. The report on examination of Attorneys Insurance Mutual of Alabama, Inc., as of December 31, 2000, was not required to be filed with any other state but was filed with the National Association of Insurance Commissioners.
2. The aforementioned report on examination and its related orders have been reviewed by the board of directors of Attorneys Insurance Mutual of Alabama, Inc.

Attorneys Insurance Mutual of Alabama, Inc.

By: 

Henry T. Henzel, President

Sworn to and subscribed before me, the undersigned authority of this, 22nd day of November 2002.


Notary Public

My Commission expires: October 28, 2003

NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Oct 28, 2003
BONDED THRU NOTARY PUBLIC UNDERWRITERS